

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Northwestern Regional Airport Comm	County Grand Traverse
Fiscal Year End December 31, 2006	Opinion Date February 28, 2007	Date Audit Report Submitted to State June 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Not required - only minor comments to management		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 731 S. Garfield Ave.		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**REPORT ON FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006, 2005 AND 2004**

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## **INDEPENDENT AUDITORS' REPORT**

Officers and Commissioners of the  
Northwestern Regional Airport Commission

We have audited the basic financial statements of the Northwestern Regional Airport Commission (the "Commission") as of December 31, 2006, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwestern Regional Airport Commission as of December 31, 2006, 2005 and 2004, and results of its operation and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Northwestern Regional Airport Commission has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

February 28, 2007

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**BALANCE SHEETS**  
**DECEMBER 31, 2006, 2005 AND 2004**

<b>ASSETS</b>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 3,542,421	\$ 3,288,511	\$ 709,337
Investments	963,841	445,876	684,468
Accounts receivable, Trade, net of allowance for doubtful accounts of \$27,000 at December 31, 2006, and \$10,000 at December 31, 2005 and 2004, respectively	465,429	401,151	298,023
Other receivables	3,412		
Current portion of note receivable			18,612
Inventories	29,390	25,781	37,700
Prepaid expenses and construction advances	<u>106,541</u>	<u>346,767</u>	<u>942,886</u>
Total current assets	5,111,034	4,508,086	2,691,026
<b>PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation</b>	60,084,563	57,719,913	50,266,017
<b>RESTRICTED ASSETS:</b>			
Cash and investments	3,639,458	3,002,154	2,186,989
Passenger facility charges receivable	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Total assets	<u><u>\$ 68,895,055</u></u>	<u><u>\$ 65,290,153</u></u>	<u><u>\$ 55,204,032</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of long-term debt	\$ 135,000	\$ 105,000	\$
Accounts payable	121,944	96,445	435,687
Accrued expenses	207,239	221,647	157,091
Accrued construction expenses	<u>451,578</u>		
Total current liabilities	915,763	423,092	592,778
<b>LONG-TERM DEBT, less current portion</b>	<u>3,660,000</u>	<u>3,795,000</u>	
Total liabilities	<u>4,575,761</u>	<u>4,218,092</u>	<u>592,778</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	56,289,563	53,819,913	50,266,017
Restricted for particular use	293,902	290,453	198,940
Unreserved	<u>7,735,829</u>	<u>6,961,695</u>	<u>4,146,297</u>
Total net assets	<u>64,319,294</u>	<u>61,072,061</u>	<u>54,611,254</u>
Total liabilities and net assets	<u><u>\$ 68,895,055</u></u>	<u><u>\$ 65,290,153</u></u>	<u><u>\$ 55,204,032</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	2006	2005	2004
<b>OPERATING REVENUES:</b>			
Rental income	\$ 1,398,610	\$ 1,364,793	\$ 1,084,486
Rent-A-Car concessions	654,997	618,805	525,168
Auto parking	890,474	895,162	519,860
Landing fees	430,992	427,123	387,463
Aviation fuel and oil	199,893	176,700	184,738
State grant		188,637	
Rental car fuel	43,095	27,100	109,515
Advertising	42,090	39,825	31,928
Ground transportation fees	1,546	1,493	6,913
Concessions	8,986	9,678	3,180
Tie downs	7,974	5,139	3,031
TSA Reimbursements	149,731	100,562	124,632
Miscellaneous	47,929	84,247	15,993
	<u>3,876,317</u>	<u>3,939,264</u>	<u>2,996,907</u>
<b>OPERATING EXPENSES:</b>			
Depreciation	2,055,480	1,838,829	993,693
Salaries and wages	924,560	921,096	859,069
Utilities	534,213	585,230	288,631
Repairs and maintenance	318,638	335,767	251,441
Payroll taxes and benefits	313,728	314,726	272,110
Advertising and promotion	96,496	94,584	134,876
Janitor services	113,651	110,042	75,959
Rental car fuel	46,329	27,822	85,177
Pension expense	113,902	104,719	84,191
Professional services	225,196	373,446	312,921
Contracted fire protection services	318,477	280,878	268,485
Insurance	119,564	109,623	79,900
Equipment rental and repair	134,310	143,307	108,890
Supplies and other expenses	43,479	44,425	41,284
Telephone	38,255	27,293	27,644
Consolidated facility charge expenditures	25,909	39,367	6,200
Bad debts	17,000	2,816	1,637
	<u>5,439,187</u>	<u>5,353,970</u>	<u>3,892,108</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,562,870)</u>	<u>(1,414,706)</u>	<u>(895,201)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	159,410	30,981	24,953
Interest expense	(146,453)	(139,952)	
Gain (loss) from sale of investments	1	89,955	12,925
	<u>12,958</u>	<u>(19,016)</u>	<u>37,878</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<u>(1,549,912)</u>	<u>(1,433,722)</u>	<u>(857,323)</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
**(continued)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS (from previous page)	(1,549,912)	(1,433,722)	(857,323)
CAPITAL CONTRIBUTIONS AND CHARGES	<u>4,797,145</u>	<u>7,894,529</u>	<u>12,248,067</u>
CHANGE IN NET ASSETS	3,247,233	6,460,807	11,390,744
NET ASSETS, beginning of year	<u>61,072,061</u>	<u>54,611,254</u>	<u>43,220,510</u>
NET ASSETS, end of year	<u>\$ 64,319,294</u>	<u>\$ 61,072,061</u>	<u>\$ 54,611,254</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from operating revenues	\$ 3,808,628	\$ 3,836,136	\$ 2,848,548
Cash paid to suppliers and employees	<u>(2,684,422)</u>	<u>(3,181,788)</u>	<u>(2,453,765)</u>
Net cash (used) provided by operating activities	<u>1,124,206</u>	<u>654,348</u>	<u>394,783</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from debt		3,900,000	
Payments on debt	(105,000)		
Interest paid	(146,453)	(139,952)	
Note receivable payments received		18,612	18,612
Purchase of property, plant and equipment	(719,211)	(2,453,369)	(4,260,003)
Receipts of passenger facility charges	904,593	891,544	845,945
Receipts of customer facility charges	<u>191,634</u>	<u>163,628</u>	<u>1,658</u>
Net cash provided (used) by capital and related financing activities	<u>125,563</u>	<u>2,380,463</u>	<u>(3,393,788)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale (Purchase) of investments and restricted cash and investments	(1,155,269)	(486,618)	2,975,834
Interest received	<u>159,410</u>	<u>30,981</u>	<u>24,953</u>
Net cash provided (used) by investing activities	<u>(995,859)</u>	<u>(455,637)</u>	<u>3,000,787</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	253,910	2,579,174	1,782
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>3,288,511</u>	<u>709,337</u>	<u>707,555</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 3,542,421</u></u>	<u><u>\$ 3,288,511</u></u>	<u><u>\$ 709,337</u></u>
<b>NONCASH FINANCING AND INVESTING ACTIVITIES</b>			
The Commission had noncash capital and related financing activities as follows:			
Acquisition of property, plant and equipment through grants	<u><u>\$ 3,700,918</u></u>	<u><u>\$ 6,839,355</u></u>	<u><u>\$ 11,377,464</u></u>

The accompanying notes are an integral part of these financial statements.



**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
**(Continued)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$ (1,562,870)	\$ (1,414,706)	\$ (895,201)
Adjustments necessary to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	2,055,480	1,838,829	993,693
Decrease (Increase) in:			
Accounts receivable – trade	(67,690)	(103,128)	(148,359)
Prepaid expenses	240,226	596,120	141,852
Inventories	(3,609)	11,919	420
Increase (Decrease) in:			
Accounts payable	25,499	(339,242)	298,938
Accrued expenses	(437,170)	64,556	3,440
Total adjustments	<u>2,687,076</u>	<u>2,069,054</u>	<u>1,289,984</u>
Cash provided (used) by operating activities	<u>\$ 1,124,206</u>	<u>\$ 654,348</u>	<u>\$ 394,783</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

The Northwestern Regional Airport Commission (the “Commission”) is a governmental entity consisting of representatives from Grand Traverse and Leelanau Counties. The Commission operates and maintains the Cherry Capital Airport (the “Airport”) in Traverse City, MI.

**Defining the Reporting Entity**

The Northwestern Regional Airport Commission is the basic level of government that has oversight responsibility and control over all activities related to the operations of the Airport. The Commission is eligible to receive funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities.

The Commission is not included in any other governmental “reporting entity”, as defined by Governmental Accounting Standards Board Statement #14, since the Commission has decision making authority, the power to designate management, the ability to significantly influence operations and retain primary accountability for fiscal matters.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Cash Equivalents**

The Commission considers all unrestricted deposits and temporary investments with an original maturity of three months or less to be cash equivalents.

**Inventory**

Inventory consists mainly of maintenance supplies and is stated at the lower of cost or market. Cost is determined using the FIFO (first in, first out) method of inventory valuation.

**Revenue Recognition**

The Commission earns and records a significant portion of their operating revenues from rental fees charged to airlines who regularly operate flights at the airport, rents charged to airport-based car rental agencies, parking fees, landing fees based on the number of landings and weight of the aircraft, as well as aviation fuel and oil sales. All leases are accounted for as operating leases, whereby revenue is recognized in the period the facility use is provided.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Property, Plant and Equipment**

Fixed assets are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. No depreciation is provided on construction in progress until the project is complete and the asset is placed in service. Estimated useful lives of fixed assets are as follows:

Landing facilities and road	10 - 20 years
Building and improvements	10 - 39 years
Furniture and equipment	5 - 33 years

Depreciation recognized on assets acquired or constructed through resources externally restricted for capital acquisition is closed to the appropriate contributed capital account. Net income adjusted by the amount of depreciation on property, plant and equipment acquired in this manner is closed to unrestricted retained earnings. Costs of maintenance and repairs are charged to expense when incurred.

**Compensated Absences**

Vacation and sick leave benefits are charged to operations when earned by the Commission's employees. Unused benefits are recorded as a current liability and are included with accrued expenses on the balance sheet. The amount of accrued vacation was \$30,061, \$32,531 and \$38,021 and the accrued sick pay was \$68,371, \$66,109 and \$64,958 at December 31, 2006, 2005 and 2004, respectively.

**Pension Plan**

All Airport employees are covered under the Michigan Municipal Employees Retirement System. Participants' contributions were funded 100% by the Commission. It is the Commission's policy to fund retirement costs annually as incurred.

**Tax Status**

The Commission is a governmental entity exempt from income taxes under Section 501(c)(1) of the Internal Revenue Code.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

The Commission's deposits and investments at December 31, 2006, 2005 and 2004 are composed of the following:

	2006			2005			2004		
	Cash and Equivalents	Investments	Restricted Assets	Cash and Equivalents	Investments	Restricted Assets	Cash and Equivalents	Investments	Restricted Assets
Deposits	\$ 3,541,271	\$	\$ 2,641,739	\$ 3,287,411	\$	\$ 2,521,170	\$ 708,237	\$	\$ 1,713,046
Investments		963,841	997,719		445,876	480,984		684,468	473,943
Petty cash On hand	<u>1,150</u>			<u>1,100</u>			<u>1,100</u>		
Total	<u>\$ 3,542,421</u>	<u>\$ 963,841</u>	<u>\$ 3,639,458</u>	<u>\$ 3,288,511</u>	<u>\$ 445,876</u>	<u>\$ 2,985,591</u>	<u>\$ 709,337</u>	<u>\$ 684,468</u>	<u>\$ 2,186,989</u>

The above deposits are uncollateralized and are held with financial institutions which provide FDIC insurance coverage. The uninsured balances of these accounts reported by the financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) total \$3,375,819, \$2,700,073 and \$2,897,931 at December 31, 2006, 2005 and 2004, respectively. The amount covered by Federal Depository Insurance is \$491,760.

**Investments**

The Commission had the following investments as of December 31, 2006:

Investment	Maturity	Rating	Fair Value
U.S. Treasury Bills – FHLB	2/16/2007	AAA/AAA	\$ 47,562
U.S. Treasury Bills – FHLB	11/14/2007	AAA/AAA	97,688
U.S. Treasury Bills – FNMA	12/21/2007	AAA/AAA	96,563
U.S. Treasury Bills - FHLMC MTN	4/16/2008	AAA/AAA	96,096
Money Market Fund			160,212
U.S. Treasury Bills – FNMA	10/19/2007	AAA/AAA	148,500
U.S. Treasury Bills – FHLB	11/21/2007	AAA/AAA	69,803
U.S. Treasury Bills - FHLMC MTN	1/28/2008	AAA/AAA	274,142
Money Market Fund			7,153
U.S. Treasury Bills – FHLB	11/14/2007	AAA/AAA	98,427
U.S. Treasury Bills – FNMA	12/21/2007	AAA/AAA	97,363
U.S. Treasury Bills - FHLMC MTN	4/16/2008	AAA/AAA	96,896
Money Market Fund			169,482
U.S. Treasury Bills - FHLMC MTN	9/27/2007	AAA/AAA	155,269
U.S. Treasury Bills – FNMA	10/19/2007	AAA/AAA	147,938
U.S. Treasury Bills - FHLMC MTN	12/28/2007	AAA/AAA	89,682
U.S. Treasury Bills – FHLB	1/25/2008	AAA/AAA	99,000
Money Market Fund			<u>9,784</u>
			<u>\$ 1,961,559</u>

Rating noted is by Moody's and S&P.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – DEPOSITS AND INVESTMENTS - continued**

*Interest Rate Risk* – The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - State statutes authorize the Commission to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Commission is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* – The Commission places no limit on the amount the district may invest in any one issuer.

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

A summary of the property, plant and equipment is as follows:

	2006	2005	2004
Land	\$ 700,333	\$ 700,333	\$ 700,333
Landing facilities and road	14,052,863	14,051,286	13,948,695
Buildings and improvements	54,308,460	47,752,868	46,057,248
Furniture and equipment	4,848,220	2,901,266	2,674,352
Construction in progress	4,328,291	8,406,794	1,147,580
	78,238,167	73,812,547	64,528,208
Less accumulated depreciation	18,153,604	16,092,634	14,262,191
Net carrying amount	<u>\$ 60,084,563</u>	<u>\$ 57,719,913</u>	<u>\$ 50,266,017</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT - continued**

Construction in progress consists of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acquire snow removal equipment – Sweeper, Loader, and Blower;; Update Airport Master Plan; Construct Aircraft Rescue and Fire Fighting Building (Design Only); Construct Snow Removal Equipment Building (Design Only)	379,966	1,790,312	387,749
Construct Aircraft Rescue and Fire Fighting Security Building		2,089,802	376,753
Construct Aircraft Rescue and Fire Fighting/Security Building And acquire Snow Removal Equipment		733,685	
Acquire aircraft rescue and fire fighting vehicle; install misc NAVIDS, install perimeter fence; install Runway 10-28 surface sensors	1,593,504	27,670	
Construct Runway 18/36 Safety Area	993,537	925,568	
Construct Building for Snow Removal Equipment	1,109,118		
Rehabilitation of Lighting, Sensors, and airfield signs; Runway 10-28	228,166		
Local share of construction unallocated to specific project number by the Michigan Department of Transportation	24,000	23,216	383,078
Closed projects		<u>2,816,541</u>	
	<u>\$ 4,328,291</u>	<u>\$ 8,406,794</u>	<u>\$ 1,147,580</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT - continued**

The cost of future construction and equipment additions in progress at December 31, 2006 is expected to be \$2,807,674, of which \$2,617,260 will be financed through grants. The Commission has satisfied its funding requirements for projects under construction at December 31, 2006.

**NOTE 4 – RESTRICTED ASSETS**

Restricted assets consist of cash and investments set aside by the Commission for the following reasons:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Proceeds from passenger facility charges	\$ 3,235,549	\$ 2,546,415	\$ 1,986,391
Receivables for passenger facility charges	60,000	60,000	60,000
Proceeds from customer facility charges	110,007	165,286	1,658
Proceeds from the sale of auto maintenance building	47,735	47,735	47,735
Allocated proceeds from sale of property by governmental unit	115,393	113,944	24,205
Proceeds from the sale of Aeropark lot	<u>130,774</u>	<u>128,774</u>	<u>127,000</u>
 Total	 <u>\$ 3,699,458</u>	 <u>\$ 3,062,154</u>	 <u>\$ 2,246,989</u>

The proceeds from passenger facility charges, plus interest earned on the funds, have been restricted for approved projects in accordance with Federal regulations.

The proceeds from the customer facility charges, plus interest earned on the funds, have been restricted for the construction of the rental car wash facility.

The proceeds from the sales of the auto maintenance building and the governmental property, plus any interest earned on these funds, have been restricted by the Commission for future airport improvements.

The proceeds from the sale of the Aeropark lot, plus interest earned on the funds, have been restricted for future airport improvements.

**NOTE 5 – LONG-TERM DEBT**

Airport Revenue Bonds, Series 2005 were obtained from Municipal Financial Consultants Incorporated. At December 31, 2006, long-term obligations currently outstanding are as follows:

Airport Revenue Bonds, Series 2005 payable in annual installments of \$135,000 to \$290,000 from August 2006 through February 2025, interest at 2.15 to 4.50%	<u>\$ 3,795,000</u>
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**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – LONG-TERM DEBT - continued**

The annual requirements to amortize long-term obligations outstanding as of December 31, 2006 including interest of \$1,687,316 are as follows:

Year ending December 31,	Principal	Interest	Total
2007	\$ 135,000	\$ 143,179	\$ 278,179
2008	140,000	139,843	279,843
2009	145,000	136,207	281,207
2010	150,000	132,185	282,185
2011	160,000	127,568	287,568
2012 – 2016	885,000	550,733	1,435,733
2017 – 2021	1,100,000	358,405	1,458,405
2022 - 2025	1,080,000	99,196	1,179,196
	<u>\$ 3,795,000</u>	<u>\$ 1,687,316</u>	<u>\$ 5,482,316</u>

The following is a summary of the changes in long-term liabilities for the year ended December 31, 2006:

	Beginning balance	Additions	Reductions	Ending Balance	Due within one year
Bonds payable:					
Revenue Bonds	<u>\$ 3,900,000</u>	<u>\$</u>	<u>\$ 105,000</u>	<u>\$ 3,795,000</u>	<u>\$ 135,000</u>

Interest expense for the year ended December 31, 2006 was \$146,453.



**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – CAPITAL GRANTS**

As of December 31, 2006, the Commission has contracted with Federal and State agencies to construct facilities and purchase equipment. Not all of the funding the Commission is eligible to receive has been released to them, as the projects have not been completed. A schedule of grants earned and for which funding is still available is presented below.

Project	Grant Amount	2004	2005	2006	Amount Remaining at 12/31/06
Acquire snow removal equipment – Sweeper, Loader, and Blower; Update Airport Master Plan; Construct Aircraft Rescue and Fire Fighting Building (Design Only); Construct Snow Removal Equipment Building (Design Only)	1,813,450	368,912	1,376,641	32,348	*
Construct Aircraft Rescue and Fire Fighting Security Building	2,229,518	357,914	1,075,320	89,825	*
Construct Aircraft Rescue and Fire fighting/Security Building and acquire Snow Removal Equipment	1,435,688		715,416	916,375	*
Acquire aircraft rescue and fire fighting vehicle; install misc NAVIDS, install perimeter fence; install Runway 10-28 surface sensors	1,560,000		26,979	1,526,688	6,333
Construct Runway 18/36 Safety Area	903,825		902,429	66,270	(64,874)
Construct Building for Snow Removal Equipment	3,719,541			1,081,390	2,638,151
Rehabilitation of Lighting, Sensors, and airfield signs; Runway 10-28	243,000			205,350	37,650
Closed contracts		<u>10,650,638</u>	<u>2,742,571</u>	<u>(217,328)</u>	
Totals		<u>\$ 11,377,465</u>	<u>\$ 6,839,355</u>	<u>\$ 3,700,918</u>	<u>\$ 2,617,260</u>

\* Projects considered complete as of December 31, 2006

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – LOCAL GOVERNMENT REPRESENTATION**

By resolution adopted during 1990, Grand Traverse County was granted representation by five members and Leelanau County two members on the Commission's Board. At the same time, Antrim, Benzie and Kalkaska Counties were granted the opportunity to join the Commission with two representatives from Antrim County and one member each from Benzie and Kalkaska Counties. As of December 31, 2006, Antrim, Benzie and Kalkaska Counties had not joined the Commission.

**NOTE 8 – OPERATING LEASES**

The Northwestern Regional Airport Commission entered into a lease agreement on May 1, 1972 with the City of Traverse City. The terms of the lease provide that all Airport land, buildings and appurtenances owned and controlled by the City will be leased for a period of 40 years for \$1, with options to renew. The Commission also accepted responsibility for maintenance and operating expenses related to the property. On July 3, 1990, the City of Traverse City transferred property and assigned its interest in the lease agreement to Grand Traverse and Leelanau Counties. In 1990, the Counties agreed to extend the operating agreement to 50 years, which was reduced to written agreement executed by the counties and the Commission on February 17, 2002. Due to the Commission's creation by contract between the counties, title to the airport merged into the counties (and the Commission) at the time of conveyance from the City, thereby relieving the counties of the need to extend the original lease. The Northwestern Regional Airport Commission continues to operate the airport through 2040 by written agreement of the counties as referenced above.

**NOTE 9 – PENSION PLAN**

**Plan Description**

The Northwestern Regional Airport Commission participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Municipal Employees Retirement System, 447 North Canal, Lansing, MI 48917 or by calling (517) 622-3197.

**Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Commission's competitive bargaining units. It is the Commission's policy to annually fund the plan in an amount equal to the annual required contribution.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – PENSION PLAN - continued**

**Annual Pension Cost**

For the year ended December 31, 2006, 2005 and 2004, the Commission's annual pension cost of \$113,902, \$104,719 and \$84,191 for the plan was equal to the Commission's required and actual contribution. The annual required contribution was determined as part of the actuarial valuation at December 31, 2005, using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8.0% investment rate of return, (b) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level annual percentage of payroll payment required to amortize the unfunded actuarial accrual liability over 30 years.

**Three-year Trend Information**

	2004	2005	2006
Annual pension cost	\$ 84,191	\$ 104,719	\$ 113,902
Percentage of APC contributed	100%	100%	100%
Net pension obligation			
Actuarial value of assets	1,876,191	2,070,664	2,265,058
Actuarial accrued liability (entry age)	2,246,201	2,640,600	2,807,632
Unfunded AAL	370,010	569,936	542,574
Funded ratio	84%	78%	81%
Covered payroll	731,682	830,895	870,170
UAAL as a percentage of covered payroll	51%	69%	62%

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Legal Actions**

The Commission is involved in legal actions and may be contingently liable for environmental damages and other costs arising in the ordinary course of business. In the opinion of the Commission, any actions with respect to these matters will not materially affect the Commission's results of operations or financial position.

**Risk Management**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission is included under the County of Grand Traverse's coverage in the Michigan Municipal Risk Management Authority for risk of loss relating to its real property.

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES - continued**

**Risk Management - continued**

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members. An individual member's maximum retention on general liability and auto liability is \$50,000. The limits on auto physical damage are \$10,000 per unit and \$30,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the first \$100,000 to be paid by the member. Some members have individual retention levels different than the ones previously stated.

In the event a reinsurance company does not meet its obligations to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund.

In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The Commission carries commercial insurance for all other risks of loss including workers' compensation and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11 – RECLASSIFICATION OF AMOUNTS**

Certain amounts previously reported have been reclassified to conform to the 2006 presentation.



## **INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

Our report on our audit of the financial statements of the Northwestern Regional Airport Commission for December 31, 2006, 2005 and 2004 appears on page 1. That audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information on pages 19 through 24 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements taken as a whole.

Certified Public Accountants  
February 28, 2007

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**SCHEDULES OF REVENUES, EXPENDITURES AND OTHER FINANCING USES –**  
**BUDGET (CASH BASIS) AND ACTUAL (ACCRUAL BASIS EXCLUDING**  
**DEPRECIATION AND BAD DEBT EXPENSE)**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	2006				
	Budget	Actual	Variance - Favorable (Unfavorable)	2005 Actual	2004 Actual
<b>OPERATING REVENUES:</b>					
Rental income	\$ 1,374,506	\$ 1,398,610	\$ 24,104	\$ 1,364,793	\$ 1,084,486
Rent-A-Car concessions	621,100	654,997	33,897	618,805	525,168
Auto parking	908,500	890,474	(18,026)	895,162	519,860
Landing fees	426,711	430,992	4,281	427,123	387,463
Aviation fuel and oil	166,000	199,893	33,893	176,700	184,738
State grant				188,637	
Rental car fuel	8,050	43,095	35,045	27,100	109,515
Advertising	39,600	42,090	2,490	39,825	31,928
Ground transportation fees	1,500	1,546	46	1,493	6,913
Concessions	8,700	8,986	286	9,678	3,180
Tie downs	5,200	7,974	2,774	5,139	3,031
TSA reimbursements	150,000	149,731	(269)	100,562	124,632
Miscellaneous	12,000	47,929	35,929	84,247	15,993
Total operating revenues	3,721,867	3,876,317	154,450	3,939,264	2,996,907
<b>OPERATING EXPENSES:</b>					
Salaries and wages	1,021,212	924,560	96,652	921,096	859,069
Utilities	632,725	534,213	98,512	585,230	288,631
Repairs and maintenance	390,400	318,638	71,762	335,767	251,441
Payroll taxes and benefits	333,430	313,728	19,702	314,726	272,110
Advertising and promotion	252,400	96,496	155,904	94,584	134,876
Janitor services	117,250	113,651	3,599	110,042	75,959
Rental car fuel	79,700	46,329	33,371	27,822	85,177
Pension expense	123,000	113,902	9,098	104,719	84,191
Professional services	618,054	543,673	74,381	654,324	581,406
Insurance	119,185	119,564	(379)	109,623	79,900
Equipment rental and repair	154,100	134,310	19,790	143,307	108,890
Supplies and other expenses	89,950	43,479	46,471	44,425	41,284
Telephone	36,640	38,255	(1,615)	27,293	27,644
CFC expenditures		25,909	(25,909)	39,367	6,200
Total operating expenses	3,968,046	3,366,707	601,339	3,512,325	2,896,778
<b>OPERATING INCOME (LOSS)</b>	<b>(246,179)</b>	<b>509,610</b>	<b>755,789</b>	<b>426,939</b>	<b>100,129</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	84,000	159,410	75,410	30,981	24,953
Interest expense				(139,952)	
Gain (loss) on sale of investments		1	1	89,955	12,925
Settlement of special assessment payable					
Total nonoperating revenues – net	84,000	159,411	75,411	(19,016)	37,878
<b>REVENUES OVER EXPENDITURES</b>	<b>(162,179)</b>	<b>669,021</b>	<b>831,200</b>	<b>407,923</b>	<b>138,007</b>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**SCHEDULES OF REVENUES, EXPENDITURES AND OTHER FINANCING USES –**  
**BUDGET (CASH BASIS) AND ACTUAL (ACCRUAL BASIS EXCLUDING**  
**DEPRECIATION AND BAD DEBT EXPENSE)**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
**(continued)**

	2006				
	Budget	Actual	Variance - Favorable (Unfavorable)	2005 Actual	2004 Actual
REVENUES OVER EXPENDITURES					
From previous page	\$ (162,179)	\$ 669,021	\$ 831,200	\$ 407,923	\$ 138,007
OTHER FINANCING USES					
Bond Proceeds				3,900,000	
Working Cash Fund					
Capital outlay	(423,800)	(32,897)	390,903	(1,326,967)	(499,853)
Reserve for airline terminal				(521,898)	(3,618,297)
Reserve for airline terminal/FFE					
Reserve for rent-a-car-service					
Bond payment	(251,000)	(251,453)	(453)		
Contingency	(200,000)		200,000		
Total other financing uses	(874,800)	(284,350)	590,450	2,051,135	(4,118,150)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ (1,036,979)	\$ 384,671	\$ 1,421,650	\$ 2,459,058	\$ (3,980,143)

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**STATEMENTS OF CHANGES IN FUND EQUITY**  
**(Pre Statement GASB #34)**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	Capital Grants	Retained Earnings		
		Unreserved	Reserved	Total
<b>Balance, January 1, 2004</b>	\$ 33,004,697	\$ 10,018,894	\$ 196,919	\$ 10,215,813
Income (loss) before capital contributions		(857,323)		(857,323)
Allocated interest income		(2,021)	2,021	
Passenger facility charges	838,026			
Passenger facility charges interest income	30,919			
Transfer of passenger facility charges	(2,130,767)	2,130,767		2,130,767
Customer facility charges	1,658			
Capital grants	11,377,464			
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(733,088)	733,088		733,088
<b>Balance, December 31, 2004</b>	42,388,909	12,023,405	198,940	12,222,345
Income (loss) before capital contributions		(1,433,722)		(1,433,722)
Allocated interest income		(3,058)	3,058	
Passenger facility charges	834,216			
Passenger facility charges interest income	57,328			
Transfer of passenger facility charges	(331,513)	331,513		331,513
Customer facility charges	163,629			
Capital grants	6,839,356			
Allocated Earnings		(88,455)	88,455	
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(1,645,292)	1,645,292		1,645,292
<b>Balance, December 31, 2005</b>	48,306,633	12,474,975	290,453	12,765,428
Income (loss) before capital contributions		(1,549,912)		(1,549,912)
Allocated interest income		(3,449)	3,449	
Passenger facility charges	799,070			
Passenger facility charges interest income	105,523			
Transfer of passenger facility charges	(462,371)	462,371		462,371
Customer facility charges	191,634			
Capital grants	3,700,918			
Allocated Earnings				
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(1,872,648)	1,872,648		1,872,648
<b>Balance, December 31, 2006</b>	<u>\$ 50,768,759</u>	<u>\$ 13,256,633</u>	<u>\$ 293,902</u>	<u>\$ 13,550,535</u>



**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**SCHEDULES OF CAPITAL CONTRIBUTIONS**  
**DECEMBER 31, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Federal Grants	\$ 3,430,488	\$ 6,421,493	\$ 9,948,798
State Grants	270,430	417,863	1,428,666
Passenger facility charges and interest earned	904,593	891,544	868,945
Customer facility charges	<u>191,634</u>	<u>163,629</u>	<u>1,658</u>
 Total capital contributions	 <u><u>\$ 4,797,145</u></u>	 <u><u>\$ 7,894,529</u></u>	 <u><u>\$ 12,248,067</u></u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**SCHEDULES OF CONTRIBUTED CAPITAL**  
**DECEMBER 31, 2006, 2005 AND 2004**

	Accumulated Contributed Capital Since Inception			Current Increase
	2006	2005	2004	
Federal government	\$ 56,469,307	\$ 53,038,819	\$ 46,617,326	\$ 3,430,488
State government	5,057,218	4,786,788	4,368,925	270,430
Local government	39,470	39,470	39,470	
<b>Total capital grants</b>	<b>61,565,995</b>	<b>57,865,077</b>	<b>51,025,721</b>	<b>3,700,918</b>
Less accumulated write-downs through depreciation	14,202,793	12,330,145	10,684,853	1,872,648
<b>Total capital grants, net of depreciation</b>	<b>47,363,202</b>	<b>45,534,932</b>	<b>40,340,868</b>	<b>1,828,270</b>
Customer facility charges	110,008	165,286	1,658	(55,278)
Passenger facility charges, plus related investment earnings	3,295,549	2,606,415	2,046,383	689,134
<b>Total contributed capital</b>	<b>\$ 50,768,759</b>	<b>\$ 48,306,633</b>	<b>\$ 42,388,909</b>	<b>\$ 2,462,126</b>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**SCHEDULES OF ACCUMULATED EARNINGS**  
**DECEMBER 31, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current Increase</u>
Cumulative local governmental contributions				
City of Traverse City	\$ 609,701	\$ 609,701	\$ 609,701	\$
Grand Traverse County	503,302	503,302	503,302	
Leelanau County	<u>293,440</u>	<u>293,440</u>	<u>293,440</u>	
 Total income from contributions	 1,406,443	 1,406,443	 1,406,443	
 Excess of revenues over expenses	 <u>12,144,092</u>	 <u>11,358,985</u>	 <u>10,815,902</u>	 <u>785,107</u>
 <b>Accumulated earnings</b>	 <u><u>\$ 13,550,535</u></u>	 <u><u>\$ 12,765,428</u></u>	 <u><u>\$ 12,222,345</u></u>	 <u><u>\$ 785,107</u></u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION  
OFFICERS AND COMMISSIONERS  
DECEMBER 31, 2006**

Dr. Stephen Beeker	Chairman and Commissioner
Jim Minster	Vice Chairman and Commissioner
Jacqueline Scott	Treasurer and Commissioner
David Rapson	Commissioner
Tom Kern	Commissioner
Richard Crowe	Commissioner
Robert Weaver	Commissioner
Jon Schmidtke	Commissioner
Stephen Cassens	Secretary and Airport Director



Certified Public Accountants

**REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS ON SCHEDULE OF PASSENGER FACILITY  
CHARGE REVENUE AND EXPENSES**

Officers and Commissioners of the  
Northwestern Regional Airport Commission

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the **Northwestern Regional Airport Commission** (the "Commission") for the years ended December 31, 2006, 2005 and 2004 and have issued our report thereon dated February 28, 2007. We have also audited the accompanying Schedules of Passenger Facility Charge Revenue and Expenses of **Northwestern Regional Airport Commission** for the years ended December 31, 2006, 2005 and 2004. This schedule is the responsibility of the Commission's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit of the schedule in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Schedule of Passenger Facility Charge Revenue and Expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Passenger Facility Charge Revenue and Expenses referred to above presents fairly, in all material respects, the net transactions within the Passenger Facility Charge Account for the year ended December 31, 2006, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

**Internal Control Over Passenger Facility Charge Reporting**

In planning and performing our audits, we considered **Northwestern Regional Airport Commission's** internal control over passenger facility charge reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule and not to provide assurance on the internal control over passenger facility charge reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over passenger facility charge reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the officers and commissioners and management of the Northwestern Regional Airport Commission and the Federal Aviation Administration and should not be used for any other purposes.

February 28, 2007

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Air carrier remittances	\$ 799,070	\$ 834,216	\$ 838,026
Interest	<u>105,557</u>	<u>57,349</u>	<u>30,939</u>
Total revenues	<u>904,627</u>	<u>891,565</u>	<u>868,965</u>
Expenses:			
Approved PFC expenditures	215,459	331,513	2,130,767
Bank fees	<u>34</u>	<u>21</u>	<u>20</u>
Total expenditures	<u>215,493</u>	<u>331,534</u>	<u>2,130,787</u>
Net passenger facility charge			
Revenue and expenses	<u><u>\$ 689,134</u></u>	<u><u>\$ 560,031</u></u>	<u><u>\$ (1,261,822)</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION**  
**NOTES TO SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES**

**NOTE A – SUMMARY OF ACCOUNTING POLICIES**

**General**

The Northwestern Regional Airport Commission (the “Commission”) is a governmental entity consisting of representatives from Grand Traverse and Leelanau Counties. The Commission operates and maintains the Cherry Capital Airport (the “Airport”) in Traverse City, Michigan.

**Defining the Reporting Entity**

The Northwestern Regional Airport Commission is the basic level of government, which has oversight responsibility and control over all activities related to the operations of the Airport. The Commission receives passenger facility charges from surcharges levied by airlines on behalf of the Commission. These revenues, as well as expenses, are required to be accounted for in the Schedule of Passenger Facility Charge Revenue and Expenses as proscribed by the Federal Aviation Administration. The activity reflected in this schedule is accounted for within the contributed capital detailed within the Commission’s general purpose financial statements.

**Use of Estimates in the Preparation of the Schedule of Passenger Facility Charge Revenue and Expenses**

The preparation of the Schedule of Passenger Facility Charge Revenue and Expenses in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

**Revenue Recognition**

Passenger facility charge revenues are recognized within the period these charges are collected by air carriers on behalf of the Commission.